

**BILL #** HB 2268

**TITLE:** school districts; desegregation costs; cap; extension

**SPONSOR:** Huffman

**STATUS:** As Introduced

**REQUESTED BY:** House

**PREPARED BY:** Steve Schimpp

## **FISCAL ANALYSIS**

### **Description**

The bill would extend through FY 2006 the current cap on desegregation expenditures from Laws 2002, Chapter 68 that otherwise will expire at the end of FY 2004.

### **Estimated Impact**

The bill would preclude an increase in State General Fund costs for the "Homeowner's Rebate" estimated at \$4 - \$12 million in FY 2005 and \$8 - \$16 million in FY 2006, depending on school district budgeting decisions for desegregation programs. The FY 2005 JLBC Budget retains the cap on desegregation expenditures.

The Arizona Department of Education does not have a fiscal impact estimate for this bill.

### **Analysis**

Desegregation programs are funded with "primary" (versus "secondary") property taxes for school districts. Since the state pays a portion of each homeowner's primary property taxes through the "Homeowner's Rebate" program (A.R.S. § 15-972), any increase in desegregation spending is shifted partially to the state through the Homeowner's Rebate. Laws 2002, Chapter 68 capped desegregation spending at the FY 2002 level for two years, which kept desegregation-related Homeowner's Rebate costs from rising in FY 2003 and FY 2004. The bill would continue the cap for another 2 years, which would keep Homeowner's Rebate costs for desegregation from rising through FY 2006.

School districts are allowed to budget for desegregation programs "outside of the Revenue Control Limit" if they operate under a court order of desegregation or have entered into a desegregation-related administrative agreement with the United States Department of Education Office of Civil Rights (A.R.S. § 15-910.G). This has the effect of allowing school districts to increase their local property tax rates to pay for desegregation programs, since any item that a school district may budget for "outside the Revenue Control Limit" may be funded through local property tax collections (A.R.S. § 15-947.C4). Voter approval is not required for a school district to levy desegregation taxes. Desegregation budgets, however, must be approved by local school boards as part of the overall budgeting process prescribed in A.R.S. § 15-905.

### Impact on Desegregation Spending

Apart from the bill, we estimate that total desegregation expenditures statewide (not just the portion paid by the Homeowner's Rebate) would increase by \$18 - \$54 million in FY 2005 and \$36 - \$72 million in FY 2006, depending on school district budgeting decisions (see table below). The "high range" estimates of \$54 million for FY 2005 and \$72 million for FY 2006 assume that school districts would seek 3 years worth of desegregation funding increases in FY 2005 in order to make up for lost funding during the cap. The "low range" estimates assume that school districts instead would seek only a "1 year" increase in FY 2005 and not recoup any lost funding. All estimates assume an average "1 year" increase of \$18 million, which would be roughly equal to the average annual increase observed for desegregation programs statewide between FY 2000 and FY 2002 (the most recent "pre-cap" years). In addition, new school districts may begin to budget for desegregation programs in FY 2005 without a cap.

## Analysis (Cont'd)

<u>Estimated Increases in Desegregation Spending and Homeowner's Rebate Costs Without HB 2268</u>				
<u>Fiscal Year</u>	<u>Desegregation Spending</u>		<u>Homeowner's Rebate</u>	
	<u>low</u>	<u>high</u>	<u>low</u>	<u>high</u>
FY 2005	\$18 million	\$54 million	\$4 million	\$12 million
FY 2006	\$36 million	\$72 million	\$8 million	\$16 million

### Impact on Homeowner's Rebate

The table above shows that we would anticipate a Homeowner's Rebate increase of about \$4 – \$12 million in FY 2005 and \$8 – \$16 million in FY 2006 (both above FY 2002) apart from the bill. These estimates are based on current data on property values and tax rates in districts with desegregation programs and assume that the state would pay 35% of homeowners' share of the estimated desegregation spending increases in FY 2005 and FY 2006. For "1% cap" districts, which are districts with overall primary property tax rates above \$10 per \$100 of Net Assessed Value, our estimates instead assume that the state would pay 100% of homeowners' share of desegregation spending increases, as required by A.R.S. § 15-972.E.

### **Local Government Impact**

The bill would prohibit school districts from increasing desegregation spending through FY 2006. The table above indicates that this would cause spending on desegregation programs to be \$18 - \$54 million lower in FY 2005 and \$36 - \$72 million lower in FY 2006 than without the bill.

Eliminating growth in desegregation spending through FY 2006 also would eliminate growth in local desegregation-related property taxes through that year. Based on the estimates shown above, local primary property taxes would be about \$14 - \$42 million less under the bill in FY 2005 than they would be without the bill. For FY 2006, local property taxes would be \$28 - \$56 million less under the bill. These estimates equal the respective "Desegregation Spending" estimates shown in the above table minus their corresponding "Homeowner's Rebate" increase estimates. This is because only the non-Homeowner's Rebate portion of each increase would be paid for by local taxpayers apart from the bill.